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DAN F. ARNETT
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176363

October 18, 2005

VIA HAND DELIVERY

Charles L.A. Terreni, Esquire
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

SC PUBLIC SERVICE
COMMISSION

2005 OCT 18 PM 4:42

RECEIVED

RE: South Carolina Electric and Gas Company – Annual Review of Purchased
Gas Adjustments and Gas Purchasing Policies
Docket No.: 2005-5-G

Dear Mr. Terreni:

Enclosed for filing please find the original and sixteen (16) copies of the Supplemental Testimony of Brent L. Sires for the South Carolina Office of Regulatory Staff in the above referenced matter. Please date stamp one copy and return it to us via our courier.

We have served same on all parties of record and enclose a Certificate of Service to that effect.

Please let me know if you have any questions.

Sincerely,

Wendy B. Cartledge
Wendy B. Cartledge

BPM/pjm
Enclosures

cc: Scott Elliott, Esquire (w/enclosure)
Paige Gossett, Esquire (w/enclosure)
Patricia Banks Morrison, Esquire (w/enclosure)
Belton Ziegler, Esquire (w/enclosure)

OK D. Duke

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-5-G

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IN RE: South Carolina Electric & Gas)
 Company – Annual Review)
 Of Purchased Gas Adjustment (PGA)) **CERTIFICATE OF SERVICE**
 And Gas Purchasing Policies)
 _____)

This is to certify that I, Wendy B. Cartledge, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **Supplemental Testimony of Brent L. Sires for the South Carolina Office of Regulatory Staff** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Patricia Banks Morrison, Esquire
South Carolina Electric & Gas Company
1426 Main Street, MC 130
Columbia, SC 29201

Belton Zeigler, Esquire
Haynsworth Sinkler & Boyd, PA
Post Office Box 11889
Columbia, SC 29211

Scott Elliott, Esquire
South Carolina Energy Users Committee
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205

Paige J. Gossett, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
Columbia, SC 29202

Wendy B. Cartledge
Wendy B. Cartledge

October 18, 2005
Columbia, South Carolina

THE OFFICE OF REGULATORY STAFF
SUPPLEMENTAL TESTIMONY AND EXHIBITS
OF
BRENT L. SIRES

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Docket No. 2005-5-G

South Carolina Electric & Gas Company
Annual Review of the PGA and
Gas Purchasing Policies

**SUPPLEMENTAL TESTIMONY OF
BRENT L. SIRES
FOR
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2005-5-G**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Brent L. Sires. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Specialist in the Gas Department for the Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I received a Bachelor of Science Degree, Marketing and Management, from the University of South Carolina in 1979. From 1980 to 2004, I was a member of the Utilities Department of the South Carolina Public Service Commission where I participated in cases involving natural gas. In January 2005, I began my employment with the ORS.

**Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN
THIS PROCEEDING?**

A. The purpose of my supplemental testimony is to provide the Commission with information in support of the comprehensive Settlement Agreement entered into on October 17, 2005 by South Carolina Electric and Gas ("SCE&G" or

1 “Company”), The South Carolina Energy Users Committee (“SCEUC”) and The
2 Office of Regulatory Staff of South Carolina (“ORS”) (collectively “Parties”) in
3 Docket No. 2005-5-G. In the Settlement Agreement, the Parties agreed to a
4 resolution of all issues in the docket and stipulated that the Purchased Cost of Gas
5 Factors attached as Exhibit B to the Settlement Agreement represent a departure
6 from established practice and policy in the administration of SCE&G’s purchased
7 gas adjustment. The Parties further stipulated that the accounting adjustments
8 contained in the Settlement Agreement were just and reasonable.

9 **Q. PLEASE EXPLAIN THE ROLE OF ORS IN REVIEWING GAS**
10 **UTILITIES COST OF GAS FACTORS.**

11 **A.** ORS is charged with representing and balancing the interests of the
12 consuming public, the regulated utilities and the economic interests of the State of
13 South Carolina.

14 **Q. WHAT ACTION DID ORS TAKE TO RESPOND TO THE ISSUES**
15 **RAISED IN THIS DOCKET?**

16 **A.** In its evaluation of the issues raised in Docket 2005-5-G, ORS reviewed the
17 testimony and supporting documentation. ORS conducted significant on-site
18 discovery and served Data Requests on SCE&G seeking further information from
19 the Company. ORS evaluated the material issues utilizing the expertise and
20 experience of the utility experts, analysts, accountants, auditors and the economist
21 on its staff.

1 **Q. DID THE PARTIES ENGAGE IN DISCUSSIONS OF ALTERNATIVES TO**
2 **THE DEVELOPMENT OF THE PROJECTED COST OF GAS FACTORS**
3 **AS PRE-FILED IN THE COMPANY'S DIRECT TESTIMONY?**

4 **A.** Yes. In light of the current unprecedented high gas prices, ORS and the
5 Parties explored the feasibility of altering the methodology previously used to
6 develop the Company's projected Cost of Gas Factors in order to lessen the impact
7 of the increases to the customers.

8 **Q. PLEASE BRIEFLY LIST THE CHANGES THAT WERE**
9 **INCORPORATED IN THE PROJECTIONS TO PRODUCE LOWER**
10 **COST OF GAS FACTORS AS CONTAINED IN THE SETTLEMENT**
11 **AGREEMENT.**

12 **A.** (1) Deferral of the under-collection of approximately \$14 million of prior
13 period under recovery of gas costs; (2) Utilization of a 24 month forecast of gas
14 costs as compared to the traditional 12 month period; (3) Injection of the
15 remaining propane inventory into the system during the months of December 2005
16 and January 2006; (4) Change of the allocation of costs for the sharing of the
17 Jasper supply capacity from a 50%-50% between the Company's electric and gas
18 divisions to a 32.32% for the gas division and a 67.68% for the electric division.

19 **Q. WHAT IS THE IMPACT TO THE COST OF GAS FACTOR RESULTING**
20 **FROM THE CHANGES LISTED ABOVE?**

1 **A.** The residential cost of gas factor was lowered from \$1.40499 per therm to
2 \$1.29729 per therm, a difference of \$0.1077 per therm or approximately 21%.
3 Through analysis and discussions with the Parties, ORS finds that the major
4 reason for the substantial increase in the cost of gas factor is a direct result from
5 the unprecedented high commodity cost of gas prices at the well head. A key
6 factor contributing to these unprecedented high prices is the severe weather
7 damage to the gas production areas in the Gulf of Mexico resulting from the two
8 recent hurricanes.

9 **Q. PLEASE EXPLAIN THE RATIONALE FOR THE MECHANISM THAT**
10 **PERMITS SCE&G TO ADJUST ITS COST OF GAS FACTOR ON A**
11 **MONTHLY BASIS.**

12 **A.** The Parties have agreed that the under-collection be capped at \$21,076,545.
13 The monthly adjustment mechanism was developed to insure that the under-
14 collection will not increase beyond this amount. In evaluating the monthly
15 adjustment methodology, ORS notes that the Commission approved a similar
16 procedure for use by Piedmont Natural Gas Company.

17 **Q. WHAT WILL BE THE IMPACT TO SCE&G'S RESIDENTIAL**
18 **CUSTOMERS RESULTING FROM THE COST OF GAS CONTAINED IN**
19 **THE SETTLEMENT AGREEMENT FOR THE TWELVE MONTH**
20 **PERIOD BEGINNING IN NOVEMBER 2005?**

1 A. Attached, as Exhibit No. __ (BLS-1), is a comparison of a residential
2 customer's annual cost. I have also attached as Exhibit No. __ (BLS-2) a
3 comparison of rates of residential customers of SCE&G to those of Piedmont
4 Natural Gas Company.

5 **Q. IS THE APPROVAL OF THE SETTLEMENT AGREEMENT IN THE**
6 **PUBLIC INTEREST?**

7 A. Yes, it is. ORS recommends that the Settlement Agreement be approved by
8 the Commission.

9 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

10 A. Yes, it does.

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Comparison of Rates for Residential Value Service

Based on Annual Residential Usage of 600 Therms

	(1)	(2)	(3)	(4)
Month	Therms	Rates Effective November 1, 2004	Settlement Rates Effective November 1, 2005	Total Difference Col (3)-Col (2)
Nov-05	25	\$31.30	\$46.91	\$15.61
Dec-05	100	\$121.11	\$167.73	\$46.62
Jan-06	100	\$121.11	\$167.73	\$46.62
Feb-06	100	\$121.11	\$167.73	\$46.62
Mar-06	100	\$121.11	\$167.73	\$46.62
Apr-06	25	\$31.30	\$46.91	\$15.61
May-06	25	\$31.30	\$46.91	\$15.61
Jun-06	25	\$31.30	\$46.91	\$15.61
Jul-06	25	\$31.30	\$46.91	\$15.61
Aug-06	25	\$31.30	\$46.91	\$15.61
Sep-06	25	\$31.30	\$46.91	\$15.61
Oct-06	25	\$31.30	\$46.91	\$15.61
	600	\$734.87	\$1,046.23	\$311.36

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Comparison of Rates for Residential Standard Service

Based on Annual Residential Usage of 472 Therms

	(1)	(2)	(3)	(4)
Month	Therms	Rates Effective November 1, 2004	Settlement Rates Effective November 1, 2005	Total Difference Col (3)-Col (2)
Nov-05	9	\$13.19	\$23.42	\$10.23
Dec-05	100	\$121.11	\$175.47	\$54.36
Jan-06	100	\$121.11	\$175.47	\$54.36
Feb-06	100	\$121.11	\$175.47	\$54.36
Mar-06	100	\$121.11	\$175.47	\$54.36
Apr-06	9	\$13.19	\$23.42	\$10.23
May-06	9	\$13.19	\$19.95	\$6.76
Jun-06	9	\$13.19	\$19.95	\$6.76
Jul-06	9	\$13.19	\$19.95	\$6.76
Aug-06	9	\$13.19	\$19.95	\$6.76
Sep-06	9	\$13.19	\$19.95	\$6.76
Oct-06	9	\$13.19	\$19.95	\$6.76
	472	\$589.96	\$868.41	\$278.46

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Comparison of Rates for Residential Value Service

Based on Annual Residential Usage of 600 Therms

(1)		(2)	(3)	(4)
Month	Therms	SCE&G Settlement Rates Effective November 1, 2005	Piedmont Natural Currently Approved as of November 1, 2005	Total Difference Col (3)-Col (2)
Nov-05	25	\$46.91	\$48.22	\$1.31
Dec-05	100	\$167.73	\$162.88	-\$4.85
Jan-06	100	\$167.73	\$162.88	-\$4.85
Feb-06	100	\$167.73	\$162.88	-\$4.85
Mar-06	100	\$167.73	\$162.88	-\$4.85
Apr-06	25	\$46.91	\$46.22	-\$0.69
May-06	25	\$46.91	\$46.22	-\$0.69
Jun-06	25	\$46.91	\$46.22	-\$0.69
Jul-06	25	\$46.91	\$46.22	-\$0.69
Aug-06	25	\$46.91	\$46.22	-\$0.69
Sep-06	25	\$46.91	\$46.22	-\$0.69
Oct-06	25	\$46.91	\$46.22	-\$0.69
	600	\$1,046.23	\$1,023.27	-\$22.96

SOUTH CAROLINA ELECTRIC & GAS COMPANY**Comparison of Rates for Residential Standard Service****Based on Annual Residential Usage of 472 Therms**

	(1)	(2)	(3)	(4)
Month	Therms	SCE&G Settlement Rates Effective November 1, 2005	Piedmont Natural Currently Approved as of November 1, 2005	Total Difference Col (3)-Col (2)
Nov-05	9	\$23.42	\$25.22	\$1.81
Dec-05	100	\$175.47	\$179.15	\$3.68
Jan-06	100	\$175.47	\$179.15	\$3.68
Feb-06	100	\$175.47	\$179.15	\$3.68
Mar-06	100	\$175.47	\$179.15	\$3.68
Apr-06	9	\$23.42	\$23.15	-\$0.27
May-06	9	\$19.95	\$23.15	\$3.20
Jun-06	9	\$19.95	\$23.15	\$3.20
Jul-06	9	\$19.95	\$23.15	\$3.20
Aug-06	9	\$19.95	\$23.15	\$3.20
Sep-06	9	\$19.95	\$23.15	\$3.20
Oct-06	9	\$19.95	\$23.15	\$3.20
	472	\$868.41	\$903.88	\$35.47